HOUSING MARKET OUTLOOK
Halifax CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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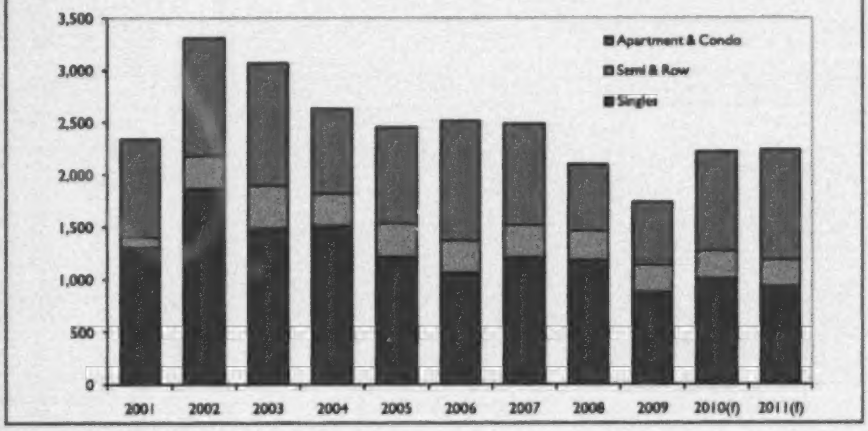
Housing Demand to Remain Subdued in 2011

The Nova Scotia economy is expected to grow approximately 1.6 and 1.5 per cent in 2010 and 2011, respectively. Halifax is expected to continue to be the main driver of growth in the province as the city benefits from a diversified employment base and a number of large projects and contracts.

With positive economic growth expected, Halifax will experience employment growth of approximately one per cent per year during the forecast period. After increasing by approximately three per cent in 2009, employment growth slowed to less than one per cent in 2010.

Figure 1

New Construction by Type by Year, Halifax CMA



Source and Forecast: CMHC

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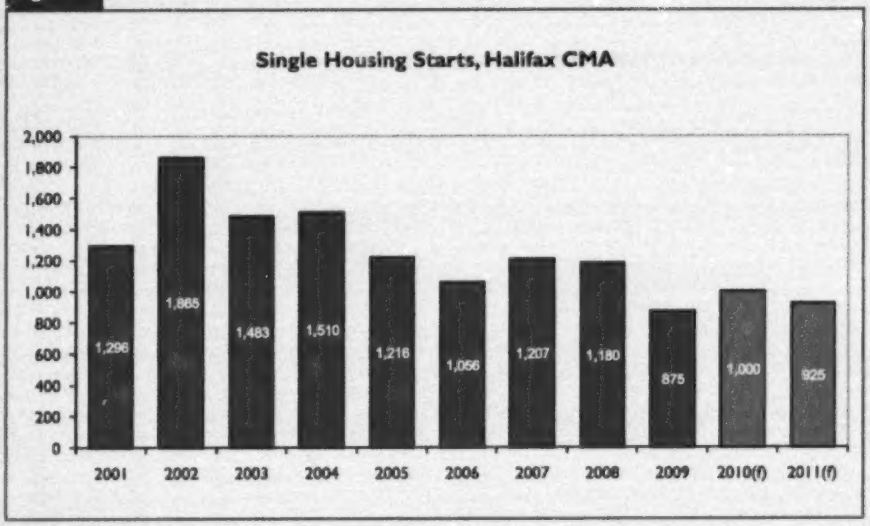
Figure 2



Source and Forecast: CMHC

Despite remaining at or near record levels for most of 2010, the employment base in Halifax is seeing some changes. Almost all of the growth in 2010 has been the result of increases in part-time positions. As of August, part-time employment grew 1.5 per cent in Halifax while full-time employment was up only 0.1 per cent.

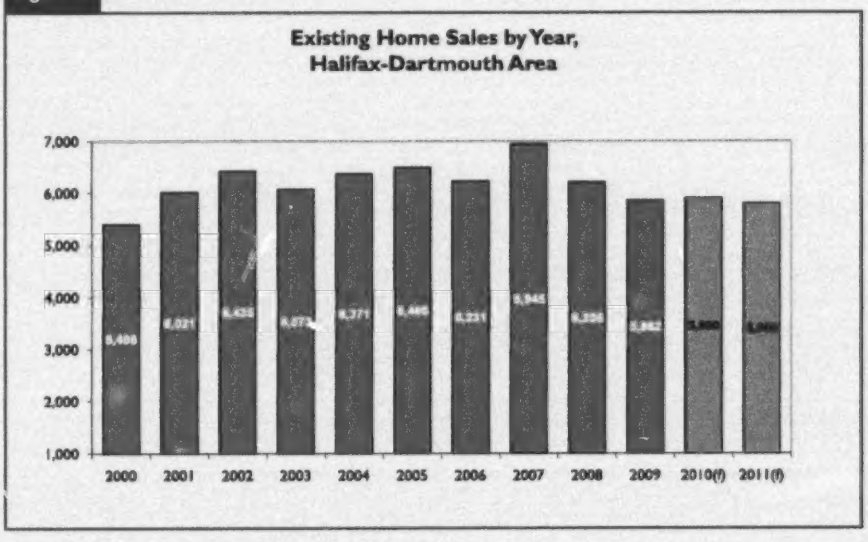
Real wage growth has also slowed in Halifax. Despite a general economic downturn in 2009, average weekly earnings grew by approximately six per cent. During that period of time, the Consumer Price Index (i.e., inflation) grew by less than one per cent. In 2010, average earnings have grown by nearly three per cent as of August to approximately $40,300 per year. Inflation, however, has increased to largely offset the impact of the wage growth. As of August, the CPI has increased by almost two per cent.

These changes in employment and real wage growth will have an impact on demand for housing. With the reduced stability inherent in a part-time position and slower real wage growth, some potential buyers may not be in a position to purchase a home.

Halifax continues to see slow population growth which can create additional demand for both existing and new housing. However, the stable rate of natural population growth is low and represents a small share of average population increases in Halifax. The city depends on migration and immigration for growth; both of which can fluctuate considerably from year to year. In the first two quarters of 2010, net-migration to Nova Scotia was up slightly compared to the same period in 2009. The first quarter of the year saw the lowest level of new migrants to the province in nearly three years, while the second quarter saw a rebound in net-migration. The latest figures suggest that the effect of migration on housing activity will be largely unchanged in 2010. Given however, that the vast majority of new migrants move to the Halifax area, stable levels of migration will continue to support overall demand for housing in the city.

Steady but slow employment growth and slower real wage growth will result in relatively subdued demand for housing over the forecast period.

Figure 3



Source: Nova Scotia Association of REALTORS® & CREA
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Forecast: CMHC

Mortgage Rates

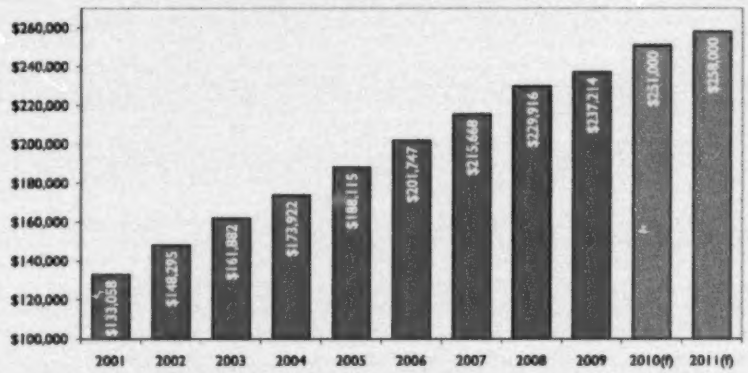
On September 8, the Bank of Canada increased the Target for the Overnight Rate from 0.75 per cent to 1.00 per cent. This is the third 25 basis point increase since April 2010, when the rate was at a historical low of 0.25 per cent. With the overnight rate expected to remain flat, mortgage rates, particularly short term mortgage rates and variable mortgage rates, are also expected to remain steady at current levels.

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Figure 4

Existing Home Average Price by Year, Halifax-Dartmouth Area



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New Home Market

New Home Construction Rebounds in 2010; Unchanged in 2011

New home construction in Halifax will rebound by 28 per cent in 2010 and remain virtually unchanged in 2011. The growth in activity in 2010 will be primarily the result of a 14 per cent increase in new singles construction and nearly 60 per cent growth in new apartment construction. For 2011, it is expected that a 7.5 per cent decline in singles construction will be largely offset by a ten per cent increase in apartment construction. This level of multiples activity follows declines of 16 per cent in 2008 and 17 per cent in 2009.

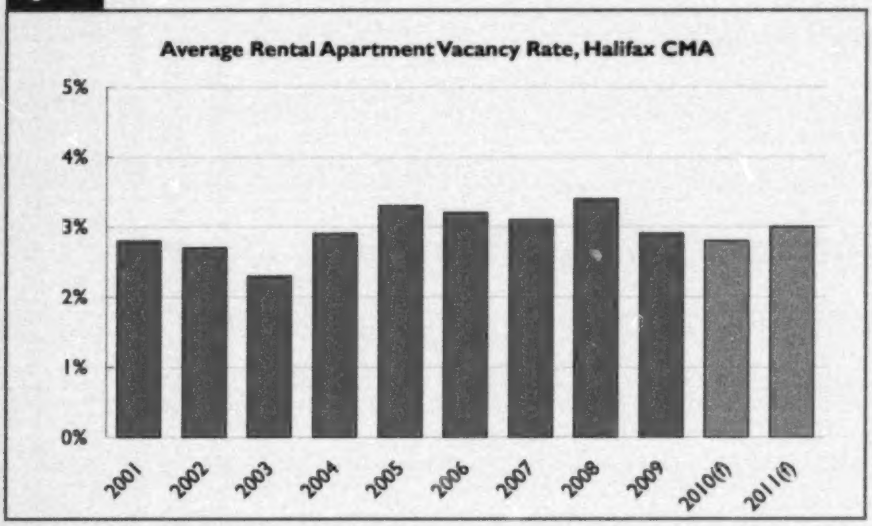
New single-detached housing starts saw considerable weakness in 2009. The 875 single starts last year represented the lowest level of activity since 1991. In 2010, single starts have rebounded by more than 26 per cent as of September and while they are expected to slow in the fourth quarter they will still see growth of approximately 14 per cent to 1,000 units. Next year, moderate economic growth will result in lower levels of singles construction. Expect approximately 925 new single starts in 2011 – a decrease of 7.5%.

The average selling price of a new single-detached home has grown considerably in 2010. The average price is expected to be $355,000 in 2010 which represents growth of six per cent compared to the average price of $335,070 in 2009. Price growth is expected to slow along with demand in 2011 as prices will increase less than two per cent reaching approximately $360,000. The average new home price is being impacted by changing consumer preferences, rising costs related to development and construction as well as location. Despite weaker demand, it is anticipated that these factors will continue to push prices upward.

New semi-detached and row houses will remain a stable part of the Halifax housing market. Expect only slight adjustments to this segment of the market as 2010 sees an incremental increase to 270 units followed by a small decrease in 2011 to 260 units.

After two years of the lowest levels of apartment construction since 1999, activity rebounded in 2010. In late 2008 and early 2009, builders and investors took a "wait-and-see" approach to the market and delayed the start of various projects. In the

Figure 5



Source and Forecast: CMHC

last few months of 2009 and in the first nine months of 2010, builders began to move forward on a large number of projects. Apartment unit starts were up 66 per cent as of September 2010. By the end of the year, apartment starts are expected to be up nearly 60 per cent to 950 units and will climb another 10.5 per cent in 2011 to 1,050 units. The bulk of the new apartments are expected to be rental units.

Resale Market

Existing Home Sales to Decline in 2011

Existing home sales in Halifax will record little change in 2010 before declining slightly in 2011. MLS® sales are expected to increase by less than one per cent this year before declining about two per cent in 2011. Average home prices will continue to rise, reaching $251,000 in 2010 and increasing to $258,000 in 2011.

A rebound in existing home sales in the first four months of 2010 was preceded by two consecutive years of declining sales. Economic weakness in the latter part of 2008 and 2009 resulted in reduced sales activity in the existing homes market. MLS® sales declined nearly 11 per cent in 2008 and another 5.5 per cent in 2009. However, sales in the fourth quarter of 2009 were quite strong, up 32 per cent from the fourth quarter of 2008, a trend that continued into the early part of 2010.

Potential home buyers took advantage of favorable buying conditions in the latter part of 2009 and into the beginning of 2010. As a result, existing home sales increased for seven consecutive months, from October 2009 to April of 2010. However, little growth in employment and modest real wage growth in 2010 resulted in declining levels of existing home sales in the April to August period of the year. Existing home sales will remain well below the record levels set in 2007 when sales reached nearly 7,000. Sales are expected to be 5,900 in 2010 and 5,800 in 2011.

Strong demand in the first four months of the year coupled with fewer new listings exerted upward pressure on prices. The average price of an existing home is expected to increase approximately 5.8 per cent in 2010. In 2011, weaker demand will result in more modest price growth than what has been recorded in recent years. Expect price growth of approximately 2.8 per cent in 2011.

The number of homes that were newly listed for sale as of August 2010 was four per cent lower than August of last year. Active listings in the HRM are now six per cent lower than last year in spite of sales activity being similar to a year ago. Expect new listings to remain essentially unchanged for the remainder of 2010.

Recent market forces have combined to create an existing homes market which continues to trend towards balanced conditions. The combination of slower employment and real wage growth will result in relatively subdued demand for existing homes.

Rental Market

Vacancy Rates to Decline Before Rising in 2011

The apartment vacancy rate in Halifax declined last year due to steady demand and reduced levels of new supply. This year, the same factors are expected to contribute to another decrease in the rate. Average rents are expected to continue to rise slowly over the forecast period.

In 2009, positive migration patterns, weakness in new and existing home sales and general uncertainty in the marketplace resulted in more demand for rental units as new renters entered the market and existing renters remained in the market. Similar factors impacting demand are at play in 2010 and will also impact the market in 2011. Economic weakness as evidenced by increased levels of part-time employment and slower real

wage growth will result in reduced demand for homeownership and increased demand for rental units.

On the supply-side, new apartment construction recorded the lowest levels of activity in 2008 and 2009 since the late 1990s. This segment of the market saw a significant rebound in late 2009 and in 2010. Most of the 599 new apartment units started in 2009 were started in the second half of the year. In 2010, new apartment starts increased by 66 per cent as of the end of September. Apartment starts are expected to reach 950 units by the end of the year and increase to 1,050 units in 2011.

Despite the fact that new apartment construction has rebounded in 2010 and will see further growth in 2011, there will be a delay in when the units become available to rent. The reduced activity in the past two years means that there will be fewer new units added to the rental universe in 2010 compared to previous years. With reduced levels of new supply being added to the market, the demand for existing units will increase and put downward pressure on the vacancy rate. Next year, several of the projects started in 2009 and 2010 will become available for rent and will begin to exert some upward pressure on vacancy rates.

The combined impact of these supply and demand factors will be a decline in the apartment vacancy rate in Halifax in 2010 to approximately 2.8 per cent. As supply begins to increase in 2011, the vacancy rate will face upward pressure and climb to approximately 3.0 per cent.

Expect average rents to continue to rise slowly. Rents continue to creep upwards due to rising costs of construction and maintenance but also in response to the introduction of new units into the local market. Over the past few years, average rents have seen annual increases between two and three per cent (based on units common to the survey sample each year). This rate of growth will continue in 2010 and 2011 as average rents rise approximately 2.6 and 2.2 per cent, respectively.

Despite the steady but slow rent increases, the Halifax rental market remains relatively affordable. Average rents have been rising more slowly than home prices and more slowly than average income levels. The result has been that the rental market in Halifax continues to offer value to renters and supports the strong levels of demand for rental units.

Forecast Summary Halifax CMA Fall 2010	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	6,945	6,205	5,862	5,900	0.6	5,800	-1.7
MLS® New Listings	10,247	10,710	10,516	10,200	-3.0	10,200	0.0
MLS® Average Price ($)	215,668	229,916	237,214	251,000	5.8	258,000	2.8
New Home Market							
Starts:							
Single-Detached	1,207	1,180	875	1,000	14.3	925	-7.5
Multiples	1,282	916	858	1,220	42.2	1,310	7.4
Semi-Detached	166	108	118	135	14.4	135	0.0
Row/Townhouse	147	169	141	135	-4.3	125	-7.4
Apartments	969	639	599	950	58.6	1,050	10.5
Starts - Total	2,489	2,096	1,733	2,220	28.1	2,235	0.7
Average Price ($):							
Single-Detached	332,821	329,765	335,070	355,000	5.9	360,000	1.4
Median Price ($):							
Single-Detached	305,000	299,900	311,400	315,000	1.2	319,000	1.3
New Housing Price Index (% chg.)	5.8	7.9	1.1	1.2	-	1.5	-
Rental Market							
October Vacancy Rate (%)	3.1	3.4	2.9	2.8	-0.1	3.0	0.2
Two-bedroom Average Rent (October) ($)	815	833	877	900	-	920	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	208,400	209,400	215,600	217,000	0.6	219,500	1.2
Employment Growth (%)	1.8	0.5	3.0	0.6	-	1.2	-
Unemployment rate (%)	5.3	5.2	6.4	6.2	-	6.1	-
Net Migration	2,096	3,173	3,920	3,000	-23.5	3,200	6.7

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Nova Scotia Association of REALTORS®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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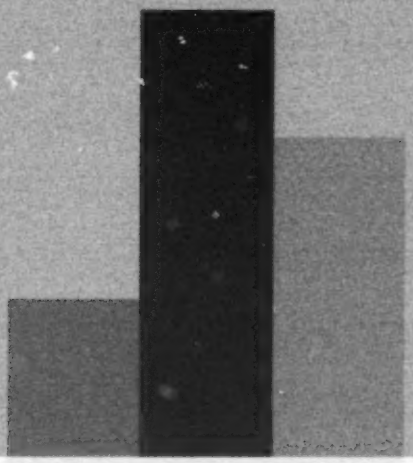

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